

VZCZCXRO7015
RR RUEHBL
DE RUEHDL #1350/01 3061729
ZNR UUUUU ZZH
R 021729Z NOV 05
FM AMEMBASSY DUBLIN
TO RUEHC/SECSTATE WASHDC 6081
INFO RUEHBS/AMEMBASSY BRUSSELS 0263
RUEHLO/AMEMBASSY LONDON 1869
RUEHTC/AMEMBASSY THE HAGUE 0236
RUEHAT/AMCONSUL AMSTERDAM 0045
RUEHBL/AMCONSUL BELFAST 0206
RUEAUSA/DEPT OF HHS WASHDC
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 02 DUBLIN 001350

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E.O. 12958: N/A

TAGS: [OVIP](#) [OTRA](#) [TBIO](#) [SOCI](#) [KSCA](#) [PREL](#) [EUN](#) [EI](#)

SUBJECT: SCENE-SETTER FOR HHS DEPUTY SECRETARY ALEX M. AZAR

REF: STATE 191854

¶1. Embassy Dublin warmly welcomes your upcoming visit to Ireland. Senior Irish policy-makers, academic leaders, and industry standouts look forward to substantive exchanges with you on health sector issues. The Embassy is planning a reception in your honor that will bring together officials and health practitioners who oversee Ireland's health system, as well as representatives of firms involved in research and development in health-related fields, particularly biopharmaceuticals. The Embassy sees your visit as an opportunity to build upon the successful bilateral links established by HHS leadership in recent years, including the U.S.-Ireland R&D Partnership that was announced last January. These links have made cooperation on health issues an important dimension of overall U.S.-Irish relations.

The Economic Backdrop: Prosperity and Competitiveness

¶2. Your visit comes at a time of unprecedented economic prosperity and national confidence in Ireland. Once the "sick man" of the European Union, Ireland emerged from the Celtic Tiger period of the 1990s as one of the richest EU Member States, largely on the strength of government policies espousing open trade and investment, low corporate tax rates, low government debt, and prudent use of EU support funds. Ireland boasts Europe's lowest unemployment rate (at 4.2 percent) and is poised to lead Member States in economic growth (at 5 percent) for the second consecutive year. Perhaps the most visible sign of Ireland's success has been the recent influx of immigrants, which has reversed the country's decades-old image as a source of migrants. Plentiful work opportunities have drawn an estimated 100,000 people to Ireland since May 2004, primarily from the EU's new Member States.

¶3. Notwithstanding this success, Irish policy-makers are concerned about Ireland's competitiveness, particularly with the emergence of India and China as alternative, lower-cost investment destinations. Irish strategy has focused on moving out of simple manufacturing into innovative, higher-value goods and services. This approach will require an education system that can produce graduates with skills in technology and physical sciences to support a knowledge-based economy. Currently, however, the education system is not producing sufficient numbers of graduates in these fields to fill high-skill positions in foreign-invested firms. Moreover, universities face funding shortfalls (since they cannot charge tuition to Irish students), which has hampered efforts to restructure curricula and to build R&D facilities in line with the economy's needs. You will have an opportunity to discuss these challenges at events involving

academics at the Wyeth biopharmaceutical campus, Science Foundation Ireland, and Trinity College.

A Political Snapshot: Looming Elections

¶4. Irish political parties have already begun public posturing for the general elections scheduled for May 2007. In the upcoming campaign, the governing Fianna Fail party, led by Prime Minister (Taoiseach) Bertie Ahern, will attempt to secure a third 5-year term in office by emphasizing Ireland's economic success. Fianna Fail will also underscore its concern for public welfare issues, with social spending set to rise in the 2006 Government budget. Opposition parties, led by Fine Gail and Labor, see the Government as vulnerable on social welfare and have begun to announce party platforms calling for more generous social benefits. This approach flows from the public perception that the rising cost of living associated with economic growth has placed burdens on some segments of society, especially young working families.

Health Care: A Hot-Button Social Welfare Issue

¶5. One social welfare issue that will figure significantly in the elections is health care, or, more specifically, the perception that the health sector has not kept pace with Ireland's rapid economic rise. Ireland's "mixed" health care system features public and private hospitals and entitles persons over 70 or who fall within the poorest one-third of the population to free health services and medicine. The system, however, has several high-profile deficiencies,

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including the following:

A) Waiting Times. The length of time required for service, even for minor surgery, can stretch to years for poorer patients lacking health insurance. Capacity problems, reflected in a shortage of hospital beds (3 per 1,000 population, versus the EU average of 4.4) has contributed to this problem.

B) Performance. Ireland ranks among the lowest one-third of OECD countries for infant mortality, child immunizations, and life expectancy at birth for men and women. Ireland also scores poorly for years of life lost due to female breast cancer and has the highest rate in the OECD for male and female mortality from heart attack.

C) Inequity. In Ireland, persons with private insurance (roughly 52 percent of the population) not only have speedier access to care, but they and their doctors have incentives to maximize treatments in subsidized public facilities. For example, the small per diem charge (usually euro 55) that the privately insured pay for public hospital beds is below the economic cost of providing the bed. Public hospitals often ring-fence up to 20 percent of beds for private use, even when uninsured patients on waiting lists have greater medical need.

D) Inefficient spending. After Government funding for the health system was cut in the 1980s, public health expenditure as a proportion of national income rocketed in the 1990s above the EU and OECD averages. Health spending grew from euro 2 billion in 1990 to roughly euro 8 billion in 2002. The persistence of health system problems, however, has created the impression that increased funds have not been well spent, if not wasted.

The Deputy Prime Minister (Tanaiste) and leader of the governing coalition Progressive Democrats party, Mary Harney, took over as Health Minister in 2004 with promises of reform to redress these deficiencies, but progress has not been evident.

¶6. In a recent discussion with the Embassy, Irish think-tank analysts partly attributed the health system's failures to administrative confusion. In 2005, regional health boards were consolidated into the Health Service Executive (HSE), a unitary government body with responsibility for managing health care nationwide. The Department of Health and Children, however, still has responsibility for overall health policy. The challenge has been for the Health Department to implement policy reforms, even though the HSE, as the health system's manager, controls the government's euro 10 billion health care budget (roughly 20 percent of total government spending). Deputy Prime Minister Harney and HSE CEO Brendan Drumm have differed publicly, for example, on ways to address hospital bed shortages. Your separate meetings with Harney and Drumm should offer insights on these administrative challenges.

The U.S.-Ireland R&D Partnership

¶7. There will be great interest during your visit in the possibility of advancing the U.S.-Ireland R&D Partnership, which was announced in January 2005 to promote cooperation among the United States, the Republic of Ireland, and Northern Ireland in several medical/biotechnology fields. The Partnership has already yielded exchanges on diabetes, and there have been recent Irish proposals for a workshop on cystic fibrosis. Many of those involved in the Partnership will attend the Embassy reception and the Science Foundation Ireland lunch, and they have expressed their hope that you will be able to announce the U.S. members of the Partnership Steering Group, i.e., the lead coordinating committee. Northern Ireland and Republic of Ireland participants believe that the Partnership can take a more structured, long-term approach to trilateral cooperation once the Steering Group is fully appointed.
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